

Message Text

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AMEMBASSY LONDON

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EO 11652: GDS

TAGS: KU ENRG

SUBJ: KUWAITI VIEWS ON OIL PRICES AND COOPERATION WITH CONSUMER
COUNTRIES

SUMMARY: VISITING DEPUTY ASST SECRETARY SOBER, DCM AND I MET
WITH KUWAITI MINISTER FINANCE & PETROLEUM ATEEQI FOR TWO HOURS
ON SEPT 23. ATEEQI IMMEDIATELY OPENED UP ON OIL PRICE ISSUE
AND PRODUCER/CONSUMER COUNTRY RELATIONS WITH RESULT THAT ENTIRE
MEETING TAKEN UP WITH LIVELY DISCUSSION ON THOSE SUBJECTS
ONLY. SOBER STRESSED SERIOUSNESS WITH WHICH USG VIEWED WORLD-
WIDE INFLATION AND MONETARY PROBLEMS ASSOCIATED WITH OIL PRICE
INCREASES. ATEEQI ACKNOWLEDGED SERIOUSNESS ABOVE PROBLEMS BUT
REFUSED ACCEPT VIEW THAT KUWAIT AND OTHER OIL PRODUCING COUNTRIES
COULD MAKE MAJOR CONTRIBUTION BY REDUCING OIL PRICES NOW. BOTH
SOBER AND ATEEQI AGREED CONSUMER/PRODUCER COOPERATION NECESSARY
AND DESIRABLE. HOWEVER, ATEEQI FLATLY REFUSED REDUCTION OIL
PRICES BY KUWAIT AT THIS TIME. END SUMMARY.

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1. ATEEQI BEGAN CONVERSATION BY REFERRING TO FACT GOK HAD

EXPERIENCED A BUDGETARY DEFICIT EACH YEAR BETWEEN 1967-70.
CURRENT SURPLUS (A TERM HE FOUND PERSONALLY OBJECTIONABLE)
ONLY PARTIALLY COMPENSATED FOR LOSS OF REVENUE EXPERIENCED BY
KUWAIT OVER MANY YEARS AS RESULT EXPLOITATION BY "ARROGANT"
MULTINATIONALS. THESE COMPANIES NO LONGER HAD THE POLITICAL
SUPPORT OF USG DUE TO CONGRESSIONAL CRITICISM. KUWAIT (AND
PRESUMABLY OTHER OPEC COUNTRIES) WOULD PROVIDE SUCH SUPPORT
TO THE INDUSTRY NOW THAT OWNERSHIP HAD SHIFTED TO PRODUCING
COUNTRIES. IN PARTICULAR, GOK WELCOMED RECENT OPEC DECISION
INCREASE TAXES TO REDUCE WINDFALL PROFITS ENJOYED BY COMPANIES
(ON EQUITY OIL) AND HE, PERSONALLY, WOULD FAVOR ANOTHER INCREASE
IF PROFITS OF MULTINATIONALS REMAIN AT CURRENT LEVELS.

2. ACCORDING TO ATEEQI, KUWAIT FEELS MORALLY OBLIGED TO HELP
THIRD-WORLD COUNTRIES SUFFERING FROM EFFECTS INFLATION BUT
SEES NO REASON TO DECREASE OIL PRICES. US OFFICIALS HAD PUT OIL
PRODUCING COUNTRIES ON NOTICE THAT USG INTENDS TO MOVE TOWARDS
ENERGY INDEPENDENCE AND THAT IT WILLING TO PAY THE COST OF
COMPETITIVE ENERGY. THESE COSTS, FOR NUCLEAR POWER AND COAL
GASIFICATION, KNOWN BY GOK. BY GOING THIS ROUTE, THE USG HAD
ESTABLISHED A "REASONABLE" WORLD PRICE FOR OIL. KUWAIT WOULD
BE HAPPY TO CONSIDER PRICE ADJUSTMENTS IF THE US DETERMINED
THAT THE CALORIC VALUE PER THOUSAND BTU'S OF CLEAN ENERGY FROM
ALTERNATIVE SOURCES COULD BE LOWERED. IN THE MEANTIME, IT
WAS THE RESPONSIBILITY OF BOTH OIL PRODUCING COUNTRIES AND
MAJOR INDUSTRIALIZED NATIONS TO INSURE THAT COUNTRIES SUCH
AS BANGLADESH DID NOT SUFFER. KUWAIT AND OTHER PRODUCERS RESENT
BEING CLASSIFIED AS THE "DEVIL" BY INDUSTRIALIZED COUNTRIES
IN THE FACE OF CURRENT WORLD PROBLEMS. OIL PRODUCING COUNTRIES
WOULD MEET THEIR RESPONSIBILITIES IF INDUSTRIAL COUNTRIES ASSUMED
EQUAL RESPONSIBILITY AND SEEK REDUCTION OF PRICES OF ALL
COMMODITIES. MEANWHILE, HE PERSONALLY WOULD RATHER SEE INDIA
FLOUNDER THAN ASK GOK AND OTHER OIL PRODUCERS TO EFFECT
UNILATERAL SALVAGE OPERATIONS.

3. ATEEQI SUGGESTED THE USG HAS, IN EFFECT, INVITED CONFRONTATION
WITH OIL PRODUCERS BY PROMOTION OF INTEGRATED EMERGENCY PROGRAM
AT BRUSSELS. THE IEP, HE CONTENDED, APPEARED DESIGNED TO
FRIGHTEN PRODUCER COUNTRIES, AND IT REPRESENTS TACTICAL MISTAKE
BY THE USG. THE EUROPEANS AND, PARTICULARLY, JAPAN WILL FIND IT
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DISASTROUS IN ANY NEW CONFRONTATION. ONLY THE US HAS THE ABILITY
TO TRULY CONSERVE ENERGY. OTHER INDUSTRIALIZED NATIONS WOULD
BE BETTER ADVISED TO REDIRECT OIL CONSUMPTION TOWARDS THE
INDUSTRIAL SECTOR WITH A VIEW TO MAINTAINING HIGH EMPLOYMENT,
PRODUCTIVITY AND THE LOWERING OF PRICES OF INDUSTRIAL GOODS
TO HELP COMBAT INFLATION. SOBER ARGUED STRENUOUSLY THAT THE IEP
WAS PERFECTLY REASONABLE DEVICE, DEFENSIVE RATHER THAN OFFENSIVE
IN NATURE. ATEEQI DID NOT APPEAR CONVINCED DESPITE HIS ACCEPTANCE

THAT USG EFFORTS TO ACHIEVE A MIDDLE EAST SETTLEMENT AND GENERATE SUPPORT FOR RESPONSIBLE ACTION TO MEET OTHER WORLD PROBLEMS WAS INCONSISTENT WITH THIS CHARGE. HE ALSO COUNSELED AGAINST CONTINUING USG EFFORTS TO INDUCE SAUDI ARABIA TO REDUCE PRICES AND INCREASE PRODUCTION. ACCORDING TO ATEEQI, THIS COULD ONLY RESULT IN DANGEROUS ISOLATION OF SAUDI ARABIA AND IN NET LOSS TO US AND WESTERN INTERESTS IN THE MIDDLE EAST AND AMONG OTHER OIL PRODUCING COUNTRIES. HE ALSO REGRETTED US FAILURE TO BE MORE FORTHCOMING WITH RESPECT TO THE PROVISION TO KUWAIT OF NUCLEAR TECHNOLOGY.

4. COMMENT: DESPITE HIS RECURRING SUGGESTIONS THE US AND OTHER MAJOR OIL CONSUMING COUNTRIES HAD ERRED IN PAST RELATIONS WITH OIL PRODUCERS, ATEEQI APPEARED GENUINELY CONVINCED OF THE NEED FOR PRODUCER/CONSUMER COOPERATION AND FOR THE ESTABLISHMENT OF A DIALOGUE AIMED AT RESOLVING COMMON PROBLEMS. HE ALSO APPEARS TO BELIEVE THIS CAN BE ACCOMPLISHED BY WIPE THE SLATE CLEAN AND BEGINNING DISCUSSIONS WITHOUT THE "GYPOCRISY" DISPLAYED BY BOTH SIDES IN THE PAST. HE DID NOT SUGGEST A SPECIFIC COURSE OF ACTION, BUT INDICATED KUWAIT WANTED DISCUSSIONS INITIATED AND WOULD PARTICIPATE PROVIDED KUWAIT WAS TREATED AS RESPECTED PARTICIPANT AND "PROVIDED WE KNOW WHAT IS TO BE THE OUTCOME". SOBER DID NOT SUGGEST NOR ENCOURAGE ATEEQI TO BELIEVE THAT A US INITIATIVE WAS FORTHCOMING NOR SEEK FURTHER CLARIFICATION OF THE RATHER OBSCURE REMARK ABOVE WHICH ATEEQI REPEATED SEVERAL TIMES BUT APPEARED UNABLE TO DEFINE MORE PRECISELY.

5. CONVERSATION, IN MY VIEW, INDICATES WE MAY INDEED HAVE TO WIPE SLATE CLEAN AND BEGIN AGAIN OUR EFFORTS TO INDUCE PRODUCER COUNTRIES TO LOWER PRICES AND INCREASE COOPERATION. IN CONCUR WITH ATEEQI ASSESSMENT THAT SOBER PRESENTATION OF CONSUMER AND THIRD-WORLD CASES WAS THE BEST AND MOST PERSUASIVE HE HAD HEARD. DESPITE SOBER'S EFFECTIVE ARGUMENTATION, ATEEQI
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REMAINED ADAMANT THAT MORE THAN OIL PRICES MUST BE CONSIDERED, AND THAT PRICE REDUCTIONS CAN ONLY BE ACHIEVED AS PART OF A LARGER PACKAGE WITH ALTERNATIVE BENEFITS PROVIDED TO OIL PRODUCING COUNTRIES. WE CAME AWAY CONVINCED THAT ATEEQI IS PREPARED TO CONTINUE THE DIALOGUE AND IS HOPEFUL THAT MEANINGFUL PROGRESS CAN BE MADE IN RESOLVING MORE IMPORTANT CONSUMER/ PRODUCER PROBLEMS.
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